



Audit Report
Public Works-Equipment Service Parts
Annual Inventory Audit – FY2014
Status: Final

For action:

Jon Kleinheksel

Director of Public Works

For information:

Jeff May

Linda Riggs

County Auditor

First Assistant Auditor

Audit Report
Public Works-Equipment Service Parts Inventory
Annual Inventory Audit – FY2014
Report Summary

As part of the End of Year procedures, an inventory audit of the Public Works-Equipment Service Parts was conducted.

The overall objective of the audit was to provide assurance that county assets were intact and accounted for and that internal controls are in place to ensure:

- Inventory recorded in the financial records exist, is accurately reported, and adequately safeguarded
- The operations of the office conform to prescribed procedures
- Exposure to potential risk is minimized

The audit scope included a count of all inventory on hand at the end of the fiscal year and a review of inventory procedures and internal controls.

Refer to the Observations and Recommendations section for the results of the audit.

This review was not intended to provide absolute assurance on all procedures, activities, or controls. We will continue to examine aspects of the office in compliance with statutes and to provide reasonable assurance that County assets are safeguarded and appropriately managed.

An exit conference with the Director of Public Works was held on August 4, 2015 to discuss this report.

The time and assistance provided by the Public Works Department in completing this audit is greatly appreciated.

Observations and Recommendations

Observation	Recommendation	Management Response
FINDING NUMBER: 117		
<p><u>Condition:</u> The perpetual inventory and the physical inventory are not in agreement. We counted 100% of the 726 total items listed on the Parts Equipment Inventory valued at \$122,289.99 and the physical inventory count was less than the perpetual inventory with a variance of \$2,158.40.</p> <p><u>Effect:</u> The perpetual system inventory values may be overstated or understated, depending on the item.</p> <p><u>Cause:</u> Some of the transactions for receiving and dispersing of equipment parts have not been entered into the perpetual inventory system creating a difference between the physical count and the perpetual amount.</p> <p><u>Criteria:</u> Measures should be taken to ensure that all authorized inventory transactions are recorded into the inventory controls system timely and accurately.</p>	<p><u>A. Transaction Required:</u> The perpetual inventory should be adjusted to reflect the physical inventory.</p> <p><u>B. Internal Control Change:</u> Measures should be taken to ensure that all authorized inventory transactions are recorded in the inventory control system timely and accurately.</p>	<p><u>A. Response:</u> The Purchasing Department adjusted the perpetual inventory to match the Physical inventory after the audit in FY14.</p> <p><u>B. Response:</u> In FY2014, Public Works experienced some abrupt staff changes related to the Parts Warehouse which adversely impacted our inventory expertise. During this interim period while replacement staff was selected and fully trained, Public Works reviewed business processes to identify improvements.</p> <p>Initially, it was believed that a discrepancy of roughly \$5,400 existed between the HTE balance and physical count. However, subsequent recounts revealed a variance of only \$2,158. Public Works believes the difference was attributed to human error regarding data entry and physical count. The consistent practice of applying stickers during inventory counts should minimize errors while conducting the annual inventory review.</p> <p>To ensure accurate inventory controls, Public Works recommends or has already implemented the following functions</p> <ol style="list-style-type: none"> 1. PW is placing large inventory items inside the secure, locked Parts Room to prevent tampering or theft. 2. PW completed a substantial project to reorganize inventory in the AS/400 which lists precise bin locations for all parts.

		<p>3.Updated and will continue to update part numbers in the AS/400 which are changed by the manufacturer for identical parts. This will eliminate multiple part numbers for the same item.</p> <p>4.Removed obsolete inventory (no longer stocked, required, or necessary) from the AS/400.</p> <p>5.PW trained a substitute part inventory employee to ensure the position is staffed consistently with experienced personnel</p> <p>6.PW will implement a bar code scanner to check in and dispense parts in tandem with the County's new financial solution.</p> <p><u>Status of Recommendation:</u></p> <p>A new parts warehouse manager has been hired and all but one (barcode system) of the processes mentioned above has been implemented. We are waiting on the new financial system in order to implement barcoding.</p>
--	--	---

Observation	Recommendation	Management Response
FINDING NUMBER: 118		
<p><u>Condition:</u> The Warehouse Manager, Asset Management Technician and Administration Secretary are all authorized to receive deliveries and issue equipment parts from the storage room. This potentially allows the same person to approve the delivery and issuance of parts.</p> <p><u>Effect:</u> The commingling of duties, such as, receiving and issuing equipment parts increases the risk of financial loss to the County.</p> <p><u>Cause:</u> The same three people are authorized to receive a delivery and issue parts from the parts warehouse.</p> <p><u>Criteria:</u> There should be a segregation of duties between the receiving and issuing of parts. The same person should not be authorized to receive orders and allowed to issue parts.</p>	<p><u>A. Transaction Required:</u> No transaction required</p> <p><u>B. Internal Control Change:</u> There should be measures taken to ensure that no one individual is authorized to receive and disperse equipment parts.</p>	<p><u>A. Response:</u> We have two back-ups for the Parts Manager position to ensure a seamless transition should the primary Parts Manager move on to another job or take PTO/CTO. Multiple back-ups are exactly what we need in order to prevent data entry errors in the future. Without a properly trained back up, input errors will occur resulting in negative inventory counts.</p> <p><u>B. Response:</u> The Parts Manager physically receives the parts and receives them electronically into the AS400 inventory system. The Auditor requires that each part is assigned to the vehicle or equipment once it is given to the technician. In order to meet the recommended control change, Purchasing would need to take over this task and ensure that each part is assigned to the vehicle or equipment. Additional staff or the reassignment of a Purchasing agent to the Public Works Parts Room may be necessary to meet this recommendation.</p> <p><u>Status of Recommendation:</u> Public Works recommends continuing the current process.</p>

Appendix